



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt Resolution to Approve Amendment No. 1 to the Second Phase Agreement for Funding the Planning and Development Activities of the Lodi Energy Center (EUD)

MEETING DATE: November 5, 2008

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution authorizing the City Manager to execute Amendment No. 1 to the Second Phase Agreement for the Lodi Energy Center and appropriate \$1.765 million from Electric Utility reserves.

BACKGROUND INFORMATION: On December 19, 2007, the City Council approved execution of the Lodi Energy Center (LEC) Phase 2 Agreement which provides for Lodi's participation in the development process of a proposed 255 megawatt (MW) combined cycle natural gas power plant to be located at the City's White Slough Water Treatment Facility. Lodi's share of the Northern California Power Agency project is 30 MW, or 11.765 percent.

LEC Amendment No. 1 is recommended because of the need, due to changing industry conditions, to order long lead-time LEC equipment and secure a production time "slot." The amendment authorizes the participating agencies to expend an additional \$15 million for Phase 2, for a total Phase 2 cost of \$40 million. The increased Phase 2 costs would not increase the total project cost, however, as they would be applied against expenditures contemplated for Phase 3.

Lodi's proportionate share of Phase 2 costs is currently \$2.941 million. Lodi's share of the additional cost of Phase 2 is \$1.765 million, for a total Phase 2 budget of \$4.706 million. Electric Utility reserves would fund the extra expense.

In order for the LEC Project to attain its targeted commercial operation date of April 2012, certain long lead time "power island equipment needs to be ordered, and/or a production time secured, 24 to 33 months in advance of the projected commercial operation date. In order not to delay the project, a manufacturing slot for this critical equipment should be obtained in early 2009. A delay in plant completion could significantly increase LEC participant costs.

It is anticipated that the power island vendors will require some form of advance deposit or option payment, likely in the \$5 to \$13 million range (but possibly as much as \$15 million), for a defined delivery schedule and equipment pricing. The steam and gas turbines and the heat recovery steam generator, together with ancillary equipment, are the likely critical power island components that will be considered under an option arrangement.

APPROVED:

A handwritten signature in blue ink, appearing to read "Blair King".

Blair King, City Manager

The Phase 2 Agreement incorporates two tiers of activities, Phase 2A and Phase 2B, at combined total authorized expenditures for all Project Participants of up to \$25 million (\$16 million for Phase 2A and \$9 million for Phase 2B). Lodi's original share of these costs is \$2.941 million (\$1.882 million for Phase 2A and \$1.059 million for Phase 2B).

Phase 2A activities formally began on March 6, 2008. On June 30, 2008 the Project Participant Committee (PPC) directed the NCPA Project Manager to commence Phase 2B activities on August 1, 2008. The proposed LEC Amendment No. 1 revises the scope of Phase 2B to include the activities related to securing a production delivery schedule and equipment. It also authorizes the potential leasing of needed warehouse and storage facilities at or near the proposed Project site.

Lodi Energy Center Participation Percentages, Capacity and Budget Allocation						
(Including the Proposed Amendment No. 1 Budget Increase)						
				Initially		Total Phase 2
	Project Member	Project Member	Initially Approved	Approved	Amend. No. 1	Budget w/
	Participation	Capacity Share	Phase 2A Budget	Phase 2B	Phase 2B	Amendment No.
	Percentage (%)	(MW)		Budget	Budget Increase	1
Project Member			\$ 16,000,000	\$ 9,000,000	\$ 15,000,000	\$ 40,000,000
Azusa	2.745%	7.0	\$ 439,216	\$ 247,059	\$ 411,765	\$ 1,098,039
BART	5.882%	15.0	941,176	529,412	882,353	2,352,941
Biggs	0.392%	1.0	62,745	35,294	58,824	156,863
CDWR	23.529%	60.0	3,764,706	2,117,647	3,529,412	9,411,765
Gridley	1.961%	5.0	313,725	176,471	294,118	784,314
Healdsburg	1.569%	4.0	250,980	141,176	235,294	627,451
Lodi	11.765%	30.0	1,882,353	1,058,824	1,764,706	4,705,882
Lompoc	1.961%	5.0	313,725	176,471	294,118	784,314
Modesto	23.529%	60.0	3,764,706	2,117,647	3,529,412	9,411,765
Plumas-Sierra	0.784%	2.0	125,490	70,588	117,647	313,725
Port of Oakland	1.176%	3.0	188,235	105,882	176,471	470,588
PWRPA	1.961%	5.0	313,725	176,471	294,118	784,314
Silicon Valley Power	19.608%	50.0	3,137,255	1,764,706	2,941,176	7,843,137
Ukiah	3.137%	8.0	501,961	282,353	470,588	1,254,902
Total	100.000%	255.0	\$ 16,000,000	\$ 9,000,000	\$ 15,000,000	\$ 40,000,000

The LEC Project team performed a financial analysis of the costs associated with delaying the project a year to wait for the Phase 3 (construction) agreement, rather than making an advance deposit or option payment in January 2009 to keep the project on schedule.

A one-year delay will cost participating agencies up to \$4 million per month in additional energy costs. Also, project cost estimates have increased since Phase 1 due to higher construction and material costs. If the factors impacting these costs continue, a one-year delay could result in an additional \$26 million, or 8 percent, project cost increase.

The risk created by LEC Amendment No. 1 is the additional \$15 million is required well in advance of the Phase 3 agreement. If the project proceeds, this expenditure is included in the anticipated overall project cost. If the project is canceled, however, then all or a portion of the deposit may be forfeited, depending upon how much time has elapsed at the time of cancellation. In times when the demand for power island equipment exceeds manufacturing capabilities, the manufacturing slot could be sold to a third party. The value of the queue position to a third party is speculative in nature, however, and there is no guarantee that it can be remarketed.

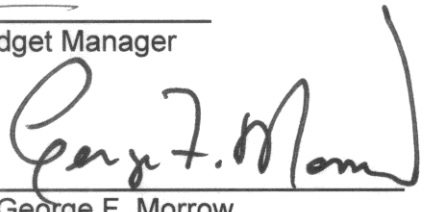
FISCAL IMPACT: Up to \$1.765 million. Not appropriating the money could delay project construction, subjecting the Electric Utility Department and its customers to higher

wholesale power costs. Appropriated funds may eventually be returned to reserves as part of a project debt financing.

FUNDING: EUD reserve funds.

Funding Approval:


Kirk Evans, Budget Manager


George F. Morrow
Electric Utility Director

Attachments

**AMENDMENT NO. 1 TO THE
SECOND PHASE AGREEMENT
FOR
FUNDING THE PLANNING AND DEVELOPMENT
ACTIVITIES
OF THE
LODI ENERGY CENTER**

This Amendment No. 1 to the Second Phase Agreement for Funding the Planning and Development Activities of the Lodi Energy Center ("LEC Amendment 1") is dated as of September 26, 2008, and is by and between the Northern California Power Agency, a joint powers agency of the State of California ("NCPA"), those members and non members of NCPA which have executed the Second Phase Agreement for Funding the Planning and Development Activities of the Lodi Energy Center which include the Cities of Azusa, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Santa Clara and Ukiah, the Bay Area Rapid Transit District, the California Department of Water Resources, the Modesto Irrigation District, the Plumas-Sierra Rural Electric Cooperative, the Port of Oakland, the Power and Water Resources Pooling Authority, and such other parties as may be identified in Exhibit C of the Agreement from time to time (collectively, the "Parties"), and

WITNESSETH:

WHEREAS, the Parties have previously entered into a "Second Phase Agreement for Funding the Planning and Development Activities of the Lodi

Energy Center” dated November 29, 2007 (“the Agreement”) which became effective on or about March 1, 2008; and

WHEREAS, the Agreement contemplates Lodi Energy Center (“LEC”) development efforts divided into Phase 2A and Phase 2B activities as described in Exhibit A of the Agreement, with total approved budget funding of \$25 million consisting of \$16 million and \$9 million allocated to Phase 2A and Phase 2B activities, respectively; and

WHEREAS, the Parties formed the Project Participant Committee (“PPC”) on March 6, 2008 and have since that date been conducting Phase 2A Project activities including the preparation of the California Energy Commission (“CEC”) Application for Certification (“AFC”), requisite air permit applications, and the procurement of Emissions Reduction Credits (“ERCs”); and

WHEREAS, on June 30, 2008, the PPC directed the LEC Project Manager to commence Phase 2B activities commencing on or about August 1, 2008; and

WHEREAS, the Project Participants are aware that certain critical power equipment, such as the natural gas turbine, steam turbine and heat recovery steam generator components of the power island assembly, require significant lead times for fabrication and delivery, and thus such equipment must be ordered in a timely manner that supports the LEC’s scheduled Commercial Operation Date of April 2012; and

WHEREAS, the Project Participants desire to lease, as needed, warehousing and administrative facilities at or proximate to the proposed LEC Project site in order to facilitate the timely preparedness for locating staff and materials ancillary to the planning, design, engineering and ultimate construction of the LEC; and

WHEREAS, the Project Participants are aware of the recent rapid escalation of power generation construction and equipment costs and

consequently desire to control the delivered cost of certain LEC power island equipment by procuring an option or take other actions to secure a known delivered cost for such equipment; and

WHEREAS, the Parties desire to amend the Phase 2B activities listed in the Agreement to provide for leasing needed administrative facilities and work areas to provide adequate space for additional Project staff; and

WHEREAS, the Parties also desire to amend the Phase 2B activities listed in the Agreement to provide for leasing needed warehouse facilities to house and protect LEC equipment, specifically the power island components that must be delivered and stored for several months prior to installation; and

WHEREAS, the Parties desire to amend the Phase 2B activities listed in the Agreement to provide for the ability to take actions that allows for advanced equipment ordering of the critical power island equipment, obtaining more favorable equipment and pricing options, having the option for considering and choosing more advantageous financing methods; these steps (actions) will result in significantly more certainty regarding the timely delivery of the equipment, and in locking-in at an earlier time a lower cost for the LEC equipment; and

WHEREAS, the Project Participants, in order to fund the expected cost to attain the facilities needed for Project staff and Project power island equipment delivery timing and price certainty, desire to increase the funding of the Phase 2B activities authorized by the Agreement budgeted accordingly by up to \$15 million, for a total Phase 2B budget amount of \$24 million (\$9 million currently approved plus the proposed added \$15 million), and thus resulting in a revised combined Phase 2A and 2B total budget of \$40 million (\$16 million for Phase 2A plus the proposed revised Phase 2B amount of \$24 million);

NOW THEREFORE, the Parties hereto agree as follows:

1. The final WHEREAS statement of the Agreement is deleted in its entirety and the following is inserted:

“WHEREAS, initiation of the Phase 2B activities consisting of all remaining Second Phase activities listed in Exhibit A attached hereto, including but not limited to the purchase of any remaining required air pollution emission credits, additional engineering and permitting costs, leasing warehousing and administrative facilities at or proximate to the proposed Project site, and actions to secure critical power island equipment delivery timing and cost certainty, at an estimated additional cost of up to twenty-four million (\$24,000,000) dollars, will not be undertaken by NCPA except upon the Project Members’ further authorization pursuant to the terms of this Agreement, and subject to the withdrawal of any Project Member after the completion of Phase 2A and upon the initiation of Phase 2B.”

2. Section 1.(c) of the Agreement is deleted in its entirety and the following is inserted:

“(c) Upon the Project Members’ authorization, provided pursuant to Section 3 of this Agreement, to undertake Phase 2B activities, NCPA shall conduct such additional work as may be necessary, including to secure a CEC Order approving an Application For Certification of the Lodi Energy Center, to obtain any further required air emission reduction credits (“ERCs”), to secure the timely delivery and cost certainty of critical

power island equipment, and to lease needed warehouse and administrative facilities at or proximate to the proposed Project site, to be determined and agreed to by the PPC. Such activities shall be performed at an estimated cost of up to twenty-four million (\$24,000,000) dollars. The Parties anticipate that Phase 2A and Phase 2B activities will be completed by the end of 2009 at a combined total cost not to exceed forty million (\$40,000,000) dollars.”

3. Insert the following at the end of the third paragraph of Section 4. of the Agreement:

Any Project related assets, which includes the procured option for power island equipment and the lease of warehouse and administrative facilities, purchased or acquired as authorized by Section 1(c) of this Agreement but not utilized shall be sold by NCPA pursuant to the PPC’s decisions and procedures and the proceeds distributed proportionately among the Project Members.

4. Exhibit A of the Agreement is deleted in its entirety and the following is inserted:

Exhibit A, LEC Amendment No. 1

PHASE 2A ACTIVITIES INCLUDE

- Finalize Phase 2 Project Participant Agreement
- Achieve Phase 2 Agreement execution by all Participants
- Establish Project Participant Committee
- Establish Project Development support and reporting infrastructure
- Establish Project Parameters (duct firing, future expandability, etc.)
- Investigate, appraise and attain necessary land and land rights from the City of Lodi
- Perform environmental assessments
- Submit application to CEC
- Purchase or secure options for Project ERCs

Phase 2A are activities anticipated to be completed by end of 2008.

PHASE 2B ACTIVITIES INCLUDE

- Complete CEC process
- Exercise ERC options or fully secure any remaining necessary ERCs
- Develop Phase III and /or PPA agreements for Project commitment and financing
- Develop Project Operations Agreement
- Develop Project fuel supply arrangements
- Commence Project detailed engineering and design
- Secure critical power Island equipment delivery timing and pricing through advance ordering or other arrangements
- Lease of needed warehouse and administrative facilities at or proximate to the Project site
- Execute Project Phase III and or PPA agreements
- Release bid for construction (Q1 2010)
- Commence construction (Q2 2010)

Phase 2B are activities anticipated to be completed by end of 2009

5. Invoicing for LEC Amendment No. 1 Budgeted Amounts

The Project Manager and the NCPA CFO shall recommend an invoicing schedule to the Project Participants for the additional funding requirements associated with PPC approved actions to secure the critical power island Project equipment delivery timing and pricing certainty, and to lease any needed warehouse and administrative facilities as agreed to by the PPC at or proximate to the proposed Project site contemplated by this LEC Amendment No. 1. The PPC shall duly develop, approve and authorize an invoicing schedule to collect required LEC Amendment No. 1 funds from Project Participants.

6. Remainder of the Agreement

All other terms and conditions of the Agreement remain in full force and effect.

7. Effective Date of LEC Amendment No. 1

The Effective Date of this LEC Amendment No. 1 shall be the next calendar day after formal approval by the governing bodies of all Project Members, subject to the special terms in Section 22 of the Agreement that apply to CDWR.

IN WITNESS WHEREOF, each Project Member has executed this LEC Amendment No. 1 to the Agreement with the approval of its governing body, and NCPA has executed this Agreement in accordance with the authorization of its Commission.

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

BAY AREA RAPID TRANSIT

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF BIGGS

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF GRIDLEY

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF HEALDSBURG

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By: _____

By: _____

Date: _____

CITY OF LODI

Approved as to Legal Form

By: _____

By: _____

Date: _____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF LOMPOC

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

PLUMAS-SIERRA RURAL ELECTRIC
COOPERATIVE

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

PORT OF OAKLAND

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF SANTA CLARA

Approved as to Legal Form

By:_____

By:_____

Date:_____

MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF UKIAH

Approved as to Legal Form

By:_____

By:_____

Date:_____

NON-MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA
POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

CITY OF AZUSA

Approved as to Legal Form

By:_____

By:_____

Date:_____

NON-MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA
POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

MODESTO IRRIGATION DISTRICT

Approved as to Legal Form

By:_____

By:_____

Date:_____

NON-MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By:_____

By:_____

Date:_____

POWER AND WATER RESOURCES

POOLING AUTHORITY

Approved as to Legal Form

By:_____

By:_____

Date:_____

NON-MEMBERS OF THE NORTHERN CALIFORNIA POWER AGENCY:

NORTHERN CALIFORNIA

POWER AGENCY

Approved as to Legal Form

By: _____

By: _____

Date: _____

STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES with
respect to its powers and responsibilities for the State Water Resources Development
System

By: _____

Raphael A. Torres, Deputy Director

Date: _____

Approved as to form and legal sufficiency

By: _____

David A. Sandino, Chief Counsel

Date: _____

RESOLUTION NO. 2008-216

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
THE CITY MANAGER TO EXECUTE AMENDMENT NO. 1 TO THE
SECOND PHASE AGREEMENT FOR FUNDING THE PLANNING AND
DEVELOPMENT ACTIVITIES OF THE LODI ENERGY CENTER

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WHEREAS, Lodi is a member of the Northern California Power Agency ("NCPA") and by way of City Council Resolution 2007-247 is a Project Participant in the Second Phase Agreement (Agreement) for Funding the Planning and Development Activities of the Lodi Energy Center (LEC); and

WHEREAS, on or about March 1, 2008, NCPA had attained 100% Project subscription along with fully executed Agreements from all Project Participants including Lodi; and

WHEREAS, the Project Participants met on March 6, 2008, and formed the Project Participant Committee (PPC) as contemplated in the Agreement and such PPC directed NCPA staff to commence Phase 2A Project activities; and

WHEREAS, on June 30, 2008, the PPC directed the NCPA LEC Project Manager to commence Phase 2B activities on or about August 1, 2008; and

WHEREAS, Project related air resources agency and CEC Application for Certification (AFC) applications were submitted during August and September 2008, respectively; and

WHEREAS, the Project Participants are aware that certain critical power equipment, such as the gas and steam turbine components of the power island assembly, require significant lead times for fabrication and delivery, and thus such equipment must be ordered in a timely manner to support LEC's construction and scheduled Commercial Operation Date of April 2012; and

WHEREAS, the Project Participants are additionally aware of the recent rapid escalation trends of power generation construction and equipment costs and consequently desire to control the delivered cost of certain LEC power island equipment by making a deposit to secure a manufacturing schedule slot or taking other actions to secure a known delivered cost for such equipment; and

WHEREAS, the Project Participants desire to amend the Phase 2B activities described in the Agreement to provide for the timely delivery and cost certainty of critical power island components through advanced equipment ordering, securing equipment, manufacturing schedule, and/or pricing options, or other method in order to attain delivery timing and cost certainty of critical LEC equipment; and

WHEREAS, the Parties desire to amend the Phase 2B activities described in the Agreement to include the leasing of any needed warehouse and administrative facilities located at or proximate to the proposed Project site in order to provide for timely and adequate staff work space and secure equipment and materials storage; and

WHEREAS, in order to fund the expected cost to attain power island equipment delivery timing and pricing certainty, the Project Participants are willing to increase the Phase 2B portion of the Agreement budget by up to \$15 million, for a total Phase 2B budget amount of \$24 million (\$9 million currently approved plus the proposed added \$15 million), and thus resulting in a revised combined LEC Phase 2A and 2B budget of \$40 million (\$16 million for Phase 2A plus the proposed revised Phase 2B amount of \$24 million) of which Lodi will be responsible for its proportionate share; and

WHEREAS, Lodi acknowledges that expenditures/deposits/option premiums incurred to attain greater equipment delivery and pricing certainty may not be refundable, in whole or in part, in the event that the LEC is not ultimately financed or constructed; and

WHEREAS, Lodi received from NCPA a 30-day advance written notice to all Project Participants by memorandum dated August 22, 2008, of its intent to seek NCPA Commission approval to execute LEC Amendment No. 1 at NCPA's September 26, 2008, Commission meeting; and

WHEREAS, the NCPA Commission did approve execution of the LEC Amendment No. 1 at NCPA's September 26, 2008, Commission meeting; and

WHEREAS, Amendment No. 1 to the Agreement will provide an opportunity for the Project Participants including Lodi to explore and implement options to meet key equipment delivery timing and cost requirements associated with the LEC Project and therefore to help Lodi meet capacity and energy power goals, reduce reliance on third-party power purchase agreements, and assist the State of California in meeting its reserve requirements and energy goals.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize (i) the City Manager to execute Amendment No. 1 to the Second Phase Agreement for Funding the Planning and Development Activities of the Lodi Energy Center and (ii) the Electric Utility Director to implement and administer such amended Agreement in accordance with its terms.

Dated: November 5, 2008

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I hereby certify that Resolution No. 2008-216 was passed and adopted by the City Council of the City of Lodi in a regular meeting held November 5, 2008, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Hansen, Johnson, Katzakian,
and Mayor Mounce

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


RANDI JOHL
City Clerk



Lodi Energy Center



**City Council
November 5, 2008**



Background

- Lodi and 13 other public electric utilities are participants in Lodi Energy Center
- The LEC is to be a 255MW combined cycle natural gas fired power plant
- Located adjacent to existing NCPA STIG plant at White Slough Water Treatment Project
- LEC is in development phase (permitting and detailed engineering)



14 Participants

- Azusa
- BART
- Biggs
- CDWR
- Gridley
- Healdsburg
- Lodi
- Lompoc
- Modesto
- Plumas Sierra
- Port of Oakland
- PWRPA
- Santa Clara
- Ukiah



Lodi Energy Center





Phase 2

- **Phase 2A** (through December 2008)
 - Initial engineering studies
 - CEC permitting evaluation
 - Equipment specification
 - Updated cost projections and timelines
 - Acquisition of air pollution credits
- **Phase 2B** (through December 2009)
 - Detailed engineering
 - Acquisition of permits
 - Development of Phase 3 agreements
 - Preparation of construction RFPs.



LEC Status

- **Project development is progressing smoothly**
- Site layout and plan completed
- Application for permits submitted to Air District and to California Energy Commission
- Developing facility sharing agreements with existing STIG owners
- Agreement for acquiring recycled water from Lodi treatment plant in process
- Preparing detailed equipment specifications
- Established fuels and financing subcommittees



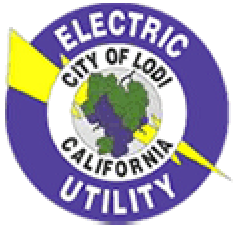
Problem

- During Phase 2 work, it was discovered that costs and lead-times for key power plant equipment were rising dramatically
- Acquisition of such “Power Island” equipment following Phase 2 would delay LEC operation by about a year due to current 24-33 month lead-time
- Power Island equipment includes steam and gas turbines as well as heat recovery steam generator (~as much as \$150M cost)



Impact of LEC Delay

- Project analysis says that the cost of a one year delay could be significant:
 - Additional cost of replacement power of about \$4 million per month
 - Increased capital costs of \$26 million based on recent cost trends.



Solution

- Advance order long lead-term “Power Island” equipment
- Accomplished by obtaining an option on equipment with a committed pricing structure and a manufacturing “slot”
- Cost of option is typically 7 to 10% of equipment cost (~\$13M more or less)
- Proposed Amendment No. 1 would provide funding for option (plus a small amount for obtaining administrative and warehousing space near LEC site)



Amendment No. 1

- Adds acquisition of “Power Island” equipment through option or other mean to Phase 2 work scope
- Allows project to obtain administrative and warehousing space at the project site as required
- Increases Phase 2 funding cap by \$15M to a total of \$40M
- Project Participant Committee would approve any eventual expenditure “option” arrangement



Risk

- As with many projects, development costs can be at risk if project not constructed
- All or part of “Option” cost may be recovered if LEC not built
- Amount of recovery dependent on market conditions at time of option sale
- If project built, option cost simply becomes a deposit on budgeted equipment costs



Phase 2 Budget

	LEC Project	Lodi's Share
Phase 2A	16	1.882
Phase 2B	9	1.059
Subtotal	25	2.941
Amendment 1	15	1.765
Total	40	4.706

(\$ millions)



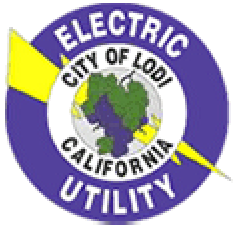
Phase 2 Cost Recovery

- Assuming project is constructed, participants would be reimbursed for development costs from bond proceeds
- Lodi share of development cost reimbursement would be \$4.7 million
- Timing of first bond issue is Spring 2010



Financing Schedule

Date	Action Step
October 2008	Select Bond Counsel & Financial Advisor
January 2009	Prepare RFP for Underwriter
March 2009	Select Underwriter
Summer 2009	Determine Financing Structure
Sept – Dec 2009	Prepare Documents & POS
TBD	Financing Commitment
November 2009	CEC License Granted
December 2009	3 rd Phase Agreement Complete
January 11, 2010	Approval by LEC Finance Subcommittee
January 25, 2010	Approval by LEC PPC
February 11, 2010	Approval by NCPA Finance Committee
Feb 2009	Rating Agency Presentations
February 25, 2010	Approval by NCPA Commission
Feb 26 to March 9, 2010	Marketing Bonds
March 13, 2010	Prepricing
March 16, 2010	Pricing/Sale of Bonds
March 31, 2010	Closing



Summary

- LEC Project Team has identified a need to obtain an early manufacturing and pricing commitment now for key “Power Island” equipment
- Alternative is to delay project by a year
- Cost of option could be as much as \$15M
- Cost of year delay could be on order of \$50M or more
- Amendment No. 1 requires unanimous approval of participants
- **Staff recommends execution of Amendment No. 1 to Phase 2 Agreement**



Questions/comments?